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**GNAIE FILES EARLY COMMENT LETTER ON IASB INSURANCE CONTRACTS
EXPOSURE DRAFT: OFFERS ALTERNATIVE TO PREMIUM ALLOCATION APPROACH
FOR P/C INSURANCE CONTRACTS ACCOUNTING**

NEW YORK, August 24 – North American insurers and reinsurers filed an early comment letter to the IASB that offers an alternative to the Premium Allocation Approach proposed in the Insurance Contracts Exposure Draft (“the Exposure Draft”) circulated by the International Accounting Standards Board (IASB) on July 30th. The early comment letter recommends an approach based on the use of the existing robust, highly transparent, and understandable measurement approach in use for nearly a century for property/casualty insurance contracts.

(<http://www.gnaie.net/iasb.htm>)

In an August 19 comment letter to IASB Chairman Sir David Tweedie, the Group of North American Insurance Enterprises (GNAIE)¹, said that the proposed Exposure Draft failed in its original intent of advocating a simplified Alternative Measurement Paradigm for certain short-term insurance contracts whose underlying attributes are best accounted for using a short-term revenue and expense model similar to that currently in use around the world.

Instead, the Exposure Draft proposes an excessively complex model that ultimately results in a full, but indirect, application of the IASB building blocks model to both the pre-claims liability and post-claim reserves associated with short-term property/casualty insurance contracts, GNAIE told the IASB.

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¹ GNAIE is a trade association representing the Chief Financial Officers of leading North American insurance companies including life insurers, property and casualty insurers, and reinsurers. GNAIE members include companies who are the largest global providers of insurance and substantial multi-national corporations, and all are major participants in the US markets.

GNAIE cited a number of specific concerns with the IASB Premium Allocation Approach. For example, GNAIE said the IASB Premium Allocation Approach is unsuitable for most property/casualty contracts because it requires a continuous application of the IASB Building Blocks approach. While this applies well to life insurance contracts, it does not result in a relevant, reliable, comparable, transparent and understandable accounting for non-life insurance contracts, according to the GNAIE Comment Letter.

GNAIE also expressed concerns that mandatory discounting of future premiums arising within insurance contracts with a coverage period of approximately one year or less does not exceed any reasonable cost-benefit threshold, a conclusion also tentatively reached by the US Financial Accounting Standards Board (FASB) in its current consideration of the same topic.

In contrast to the IASB premium allocation approach, GNAIE proposed an Alternative Measurement Paradigm for short-term property/casualty contracts to differentiate those short-term contracts that should qualify for a simplified measurement and reporting approach from those that would be better suited to a building block approach, said Jerry de St. Paer, executive chair of GNAIE in the Comment Letter to the IASB.

The GNAIE proposal is based on the following considerations:

- The existing guidance in U.S. GAAP for distinguishing between short and long-term contracts (i.e., 944-20-15-7 and 944-20-15-10) should be adopted internationally as there have historically been no issues with its application and similar approaches are used all over the world;
- Short-term property-casualty insurance contracts are fundamentally different from life insurance contracts. Moreover, the IASB Building Block model applies

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reasonably well to life insurance contracts where the investment component is an important element whereas for property-casualty contracts it is not;

- The results from typical short-term property-casualty insurance contracts, by comparison to typical life insurance contracts, are more uncertain. For typical property-casualty contracts it is not known if there will be a loss(es), when a loss or losses may occur, or the amount of any loss(es). By comparison, for a traditional life insurance contract the unknowns are when the insured will die, if it will happen before the contract expires or lapses;
- Claims and claims expenses are the most significant variable element of underwriting profit or loss for non-life insurance contracts. Thus, the incorporation of claim development tables provides a useful tool for analysts and investors to evaluate the precision of management's reserve estimates and the corresponding quality of earnings;
- For most short-term property-casualty insurance contracts, when losses do occur, they emerge quickly (i.e., the majority are reported during the coverage period), generally not as quickly as for life coverage; and
- Short-term property-casualty insurance contracts are best accounted for using a short-term revenue and expense model supplemented, such as under US GAAP, with claim development tables as required disclosures.

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GNAIE said it would continue to assist both the IASB and the Financial Accounting Standards Board (FASB) in their continuing discussions on insurance contracts. “We urge the Boards to give thoughtful considerations to our AMP (Alternative Measurement Paradigm) proposal as we believe it would allow the continued use of the existing robust, highly transparent, understandable measurement and reporting approach that has been in use around the globe for nearly a century,” said de St. Paer.

The mission of the Group of North American Insurance Enterprises (GNAIE) is to assist North American and global standard setters and regulators in cooperation with the global insurance industry and with insurance and other financial services industry trade associations:

- * To support high quality insurance accounting standards that are useful, understandable, comparable and reliable; that preserve the insurance industry level-playing field access to global capital markets; and that provide good disclosure to the insurance industry’s diverse constituencies;

- * To support high quality insurance solvency standards that provide useful and effective statutory solvency measures to protect the interests of policyholders and other stakeholders while encouraging competitive insurance markets; and

- * To enhance cooperation, education and communication regarding insurance accounting and solvency among the insurance industry’s standards setters, regulators, and diverse constituencies.

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